

# **Fiscal Year 2017 City of Fayetteville Budget Development Guidelines**

## **City Operations**

The two largest sources of revenue to support General Fund operations are property taxes (43%), and sales taxes (24%). The City Council annually sets the City's property tax rate which is currently \$0.486 per \$100 of assessed valuation. Property listing, appraisal and valuation are the responsibility of the Cumberland County Tax Administrator. The City Council has no authority to set the sales tax rate as it is determined by the General Assembly with few exceptions reserved to local option referenda by County Commissioners for limited defined purposes. Additionally, County Commissioners are granted statutory authority to choose either an ad valorem tax levy or per capita basis for distribution of sales tax proceeds within a county.

Growth in the City's real property tax base has been limited in recent years with taxable real property values increasing 2.4% and 1.5% respectively in FY 2014 and FY 2015. For fiscal year 2017, growth in taxable values may also be slowed by action taken by the North Carolina General Assembly to provide property tax exclusions of up to three and five years respectively for increases in residential and commercial real property value from subdivision, site improvements and construction of single family and duplex residences.

Comparison of growth in taxable values of the personal property tax base, including motor vehicles, is complicated by the State's transition to the "Tag and Tax Together" program in FY 2014. In that transition year, 16 months of taxes on licensed motor vehicles were assessed. A comparison of FY 2015 personal property values to FY 2013 values reveals an increase of only 2.5% over two fiscal years. While the tax base has shown limited growth, revenue collections have benefitted from the "Tag and Tax Together" program as collection percentages on motor vehicle taxes have increased from 80.49% in FY 2013 to 99.98% in FY 2015.

Sales tax revenues, however, grew 7.6% in FY 2015, a healthy rate of increase after FY 2013 and FY 2014 averaged 2% growth. This revenue growth was reflective of a nearly 9% increase in taxes based upon state-wide sales, and just over 6% in taxes based on local sales. Through the first quarter of FY 2016, the North Carolina Fiscal Research Division reports baseline growth in state-wide sales tax revenues of 5.1% over the first quarter of the prior fiscal year and is projecting continuation of this growth pattern through the end of FY 2016.

In addition to property tax rates, the City Council also sets user fees for many of the individual services. For the General Fund, these fees are an important part of paying for many services such as planning and permitting, parks and recreation, and other "fee for service"

activities, however the total revenue impact is less than 5%. Fees set by Council provide significant revenue support for the enterprise funds of the City, including the Stormwater, Transit, Airport and Environmental Services funds. These fees have provided steady sources of funding to support these operations, with growth in revenues realized from fee increases authorized by Council in recent years and increasing patronage.

Based on current trends and the new exclusions for improvements to real property, it appears that growth in the City's property tax base will remain modest. As a result, increases in City spending will be limited in FY 2017 and must be targeted to high priorities. Council will meet in a strategic planning retreat on February 19 and 20, 2016 to update priorities for FY 2017. The current Strategic Plan encompasses six goal areas, and within these goal areas the City Council's proposed top six policy priorities for FY 2016 included:

- Crime reduction
- Economic development
- Parks and recreation facilities
- Customer service
- Homelessness solutions
- Comprehensive land use plan.

Accordingly, the City Council directs the City Manager to develop a budget for Fiscal Year 2017 that limits increases to what is needed to accommodate population growth and cost factors for existing service levels, clearly identifies funding requirements driven by State and/or federal mandates, and advances the City Council's Strategic Plan with a special emphasis on the Council's top targets for action. Should it become necessary to propose new revenues or to propose reductions in existing services to fund the City Council's top priorities, the City Manager should present the budget in such a manner that the City Council will be able to make comparative decisions between existing programs and between revenue options.

## **REVENUES**

### **PROPERTY TAX RATES**

- The City Manager should prepare the FY 2017 budget based on the existing tax rate of \$0.486, with an increase of \$0.025 to be dedicated for Parks and Recreation capital should the March bond referendum be passed by the voters.
- Existing Municipal Service District tax rates shall be adjusted to cover only actual expenses. An evaluation of MSD revenues and expenditures and long term viability of operations will be conducted and presented to the City Council prior to considering any future rate adjustments.

- The General Assembly committed to providing a revenue source to offset the repeal of the business privilege license tax, but failed to do so in the 2015 legislative long session. Cities will likely continue to pursue this matter which had a \$1 million revenue impact on Fayetteville.

### **SALES TAX DISTRIBUTION**

- The current sales tax distribution agreement between Cumberland County and its municipalities expires at the end of FY 2016. City Council and the City Manager will work in conjunction with the town leaders to negotiate with Cumberland County for a replacement sales tax distribution agreement that more fairly allocates revenues to the municipalities.

### **VEHICLE LICENSE TAX**

- The General Assembly increased municipal authority for motor vehicle license taxes effective July 1, 2016. Current license taxes include \$5 to support General Fund operations and \$5 to support transit. The statute change provides an option to increase the license tax by up to \$20, with the additional revenues dedicated to maintaining, repairing, constructing, reconstructing, widening, or improving public streets that do not form a part of the State highway system. City Council and citizens have long desired an increase in funding for the street resurfacing program. Increases in the vehicle license tax should be considered to provide additional funding to decrease the current paving cycle.

### **FEES FOR SERVICE**

- The scheduled \$0.25 increase in the monthly stormwater fee should be implemented, bringing the fee to \$4.00 per month for FY 2017. Two additional increases of \$0.25 are scheduled in subsequent fiscal years, bringing the fee to \$4.50 per month in FY 2019, and these revenues should be considered in planning for stormwater capital improvements and permit compliance.
- General Fund support for solid waste services in FY 2016 equates to \$7.8 million, or the equivalent of 5.6 cents of the City's tax rate.
- In light of the fact that a more detailed review of Planning and Development fees was conducted within the past three years, the City Manager should conduct a cursory review and discussion of opportunities for non-tax revenue enhancements such as user fees, and similar charges for service.
- Transit fares were last adjusted in 2013, with the next fare review scheduled for March, 2017. The fiscal year 2017 budget will be prepared based upon the current fare schedule. During the fiscal year, Transit staff will research and prepare fare options for Council consideration for the fiscal year 2018 budget.
- Airport fees and charges should be considered following a comprehensive analysis underway in FY 2016.

## **TRANSFERS**

- Consistent with the transfer negotiated for fiscal year 2016, the transfer from the Electric Fund to the General Fund for fiscal year 2017 shall be budgeted at the equivalent of 5.2% of metered residential, commercial and industrial electric sales for fiscal year 2015.

## **FUND BALANCE APPROPRIATION**

- Fund Balance shall be targeted to remain at the end of the 2017 Fiscal Year at 12% of General Fund Expenditures. Appropriation of fund balance shall be for “one time” purposes and not recurring obligations.

## **EXPENDITURES**

In order that expenditures may be balanced against forecasted modest revenue growth, the City Manager shall diligently pursue focused discussions with City departments regarding program and service priorities, reorganization, and/or alternative service delivery models that provide the opportunity to address the performance and efficiency of City programs.

- Non-recurring funds shall not be directed toward recurring uses.
- Dedicate, at a minimum, 5.15 cents of the City’s property tax rate to the city’s Capital Funding Plan.
- New positions shall only be funded for a partial year when warranted by the timing of the actual operational impact on the budget.
- Service enhancements and departmental realignments implemented in the current fiscal year shall generally be added to the base budget for FY2017 planning purposes.
- The transition of purchasing services previously provided under a shared services agreement with PWC shall be completed in FY 2016. All other existing shared services delivery models with utility operations shall continue for fleet maintenance, legal, government access channel, consolidated call center operations, fiber optic network access, 800 megahertz radio system access and GIS software licensing. However, in light of continued service concerns, an evaluation of fleet maintenance for transition away from the current arrangement may be warranted.
- Fund the Capital Improvement and Technology Improvement Plans as presented to Council in February with any modifications clearly identified.
- Implement the Parks and Recreation Capital Program if voters approve the bond referendum in March 2016.
- Other than standard water, sewer, and electric service rates, the City Manager should not budget for payments or presentation of charges from utility operations to the City’s non-utility operations without prior coordination and agreement regarding an appropriate cost allocation methodology as exists.

- Continue to develop options for the creation of a revolving financial resource dedicated to neighborhood and corridor revitalization.
- Continue partnership and funding efforts with the County to address homelessness.
- Convert the Joint Human Relations Commission to a City-only Commission unless notification of a continued partnership commitment is received from Cumberland County.
- Work towards reducing our paving cycle thru increased funding, including identification of alternative revenue or funding models and strengthening of standards for prevention of pavement degradation.
- Implement pilot program for contracted solid waste collection if directed by Council based proposals received.
- Coordinate feasibility study of solid waste collection on Fort Bragg.
- In order to be considered for budget development, Council committees that develop project proposals should present those proposals to Council during the strategic planning retreat.
  - Gateway Committee projects
  - Youth projects

## **PERSONNEL**

- The City Council has made efforts to advance the City's pay plan to be more comparable to similar positions in County government, and in the City's utility operations. In order to maintain this momentum relative to our market, structural adjustments to the pay system should be considered to avoid "backsliding."
- Options to further refine public safety compensation plans should be considered to maintain equity to the market and between ranks.
- The amount budgeted for merit or performance pay adjustments and how the funding will be applied shall be clearly articulated in the budget document and relevant published personnel policies. If resources limit this option, a cost of living adjustment should be considered.
- Dialogue and efforts should continue to bring benefit programs into consistency and coordination with those provided the City employees assigned to utility operations.
- The current employer/employee cost sharing relationship should be maintained for the healthcare plan in light of potential plan cost increases.
- State law requires certain "asymmetrical" compensation policies, such as the mandatory 5% 401(k) contribution to sworn law enforcement personnel. In FY 2016, a 1% 401(k) contribution was initiated for the remainder of the workforce. Further adjustments should be explored as a matter of equity and fairness, including utility employees.

## **Utility Operations**

The City Council has appointed a Public Works Commission to manage the City's water, sewer, and electric utilities in the best interests of the City of Fayetteville. The Council provides the following guidelines to assist the Commission in fulfilling its responsibilities:

## **REVENUES**

- Fund balance projections, to include scheduled use of rate stabilization funds, and narrative descriptions of revenue projections and assumptions should be presented in the budget document.
- Other than standard water, sewer, and electric service rates, the Commission should no longer authorize requests for payments or presentation of charges to other City operations without prior coordination and agreement regarding an appropriate cost allocation methodology.

## **EXPENDITURES**

- Existing shared services delivery models with utility operations shall continue for fleet maintenance, legal, government access channel, consolidated call center operations, fiber optic network access, 800 megahertz radio system access and GIS software licensing.
- All utility capital projects, including projects for the extension of water and sewer services to the Phase V annexation area should be fully supported by utility funds without contribution or set-off from the City's General Fund.
- All utility costs associated with City capital projects should be fully supported by utility funds, whether planned and included in the City's adopted Capital Improvement Plan or unplanned due to emergency repair or infrastructure failure.
- Projects related to the provision of basic utility services should be prioritized over service enhancement or automation initiatives. Additional or expanded projects to hasten the provision of water and sewer service to current City residents should be a priority.
- Fund the Capital Improvement Plan as presented to Council in February with any modifications clearly identified.
- Expenditures for economic development, community sponsorships and contingency appropriations must be itemized in the budget submission.
- The budget ordinance will be appropriated at division or function levels within funds, as opposed to the current fund level appropriation. Utility staff should develop a proposal which gives City Council greater budget oversight and accountability.

## **PERSONNEL**

- The amount budgeted for merit or performance pay adjustments, structural adjustments to pay plans and how the funding will be applied shall be clearly articulated in the budget document and relevant published personnel policies. If resources limit this option, a cost of living adjustment should be considered.
- A listing of authorized positions, pay grade assignments and pay ranges shall be presented in the budget document.

- Consistent with open government and state law, all compensation policies and procedures will be memorialized and available for review.
- The Commission is encouraged to move employee benefit programs into consistency and coordination with those provided to non-utility City employees in order to reduce costs through improved purchasing power; greater dispersion of risk, and reduced overhead. To that end, the City Council requests a report on the cost of the following benefits and recommends that the Commission consider and adopt the following for the new fiscal year:
  - Longevity pay should be eliminated for new employees.
  - The payout of accrued sick leave upon retirement should be discontinued.
  - Retiree healthcare for new employees should be discontinued.